

The Audit Findings for the London Borough of Croydon

Year ended 31 March 2017

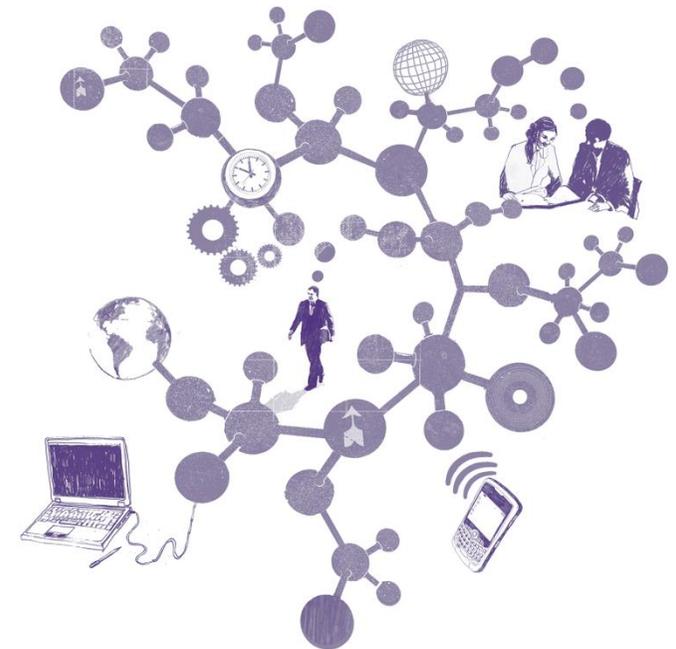
September 2017

Paul Grady
Engagement Lead
T 020 7728 2301
E paul.d.grady@uk.gt.com

Thomas Slaughter
Assistant Manager
T 020 7728 2972
E thomas.m.slaughter@uk.gt.com

Jamie Bewick
Senior Manager
T 012 9355 4138
E jamie.n.bewick@uk.gt.com

Keyasha Pillay
In-Charge Auditor
T 020 7728 2494
E keyasha.pillay@uk.gt.com



London Borough of Croydon
Bernard Weatherill House
8 Mint Walk
Croydon CR0 1EA

Grant Thornton UK LLP
30 Finsbury Square
LONDON
EC2A 1RR

T +44 (0) 207 383 5100
www.grant-thornton.co.uk

September 2017

Dear Members of the General Purposes and Audit Committee

Audit Findings for the London Borough of Croydon for the year ending 31 March 2017

This Audit Findings report highlights the key findings arising from the audit that are significant to the responsibility of those charged with governance (in the case of the London Borough of Croydon the General Purposes and Audit Committee), to oversee the financial reporting process, as required by International Standard on Auditing (UK & Ireland) 260, the Local Audit and Accountability Act 2014 and the National Audit Office Code of Audit Practice. Its contents have been discussed with the Director of Finance and Assets.

As auditors we are responsible for performing the audit, in accordance with International Standards on Auditing (UK & Ireland) ('ISA (UK&I)'), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements and giving a value for money conclusion. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

We would like to take this opportunity to record our appreciation for the kind assistance provided by management, the finance team and other staff during our audit.

Yours sincerely

Paul Grady
Engagement Lead

Chartered Accountants

Grant Thornton UK LLP is a limited liability partnership registered in England and Wales: No. OC307742. Registered office: Grant Thornton House, Melton Street, Euston Square, London NW1 2EP. A list of members is available from our registered office. Grant Thornton UK LLP is authorised and regulated by the Financial Conduct Authority.

Grant Thornton UK LLP is a member firm of Grant Thornton International Ltd (GTIL). GTIL and the member firms are not a worldwide partnership. Services are delivered by the member firms. GTIL and its member firms are not agents of, and do not obligate, one another and are not liable for one another's acts or omissions. Please see grant-thornton.co.uk for further details.

Contents

| Section | Page |
|------------------------------------------------|-------------|
| 1. Executive summary | 4 |
| 2. Audit findings | 8 |
| 3. Value for Money | 28 |
| 4. Other statutory powers and responsibilities | 38 |
| 5. Fees, non-audit services and independence | 40 |
| 6. Communication of audit matters | 43 |

Appendices

- A Action plan
- B Audit opinion

Section 1: Executive summary

01. Executive summary

02. Audit findings

03. Value for Money

04. Other statutory powers and duties

05. Fees, non audit services and independence

06. Communication of audit matters

Purpose of this report

This report highlights the key issues affecting the results of the London Borough of Croydon ('you' or 'the Council') and the preparation of your financial statements for the year ended 31 March 2017. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of ISA (UK&I) 260, and the Local Audit and Accountability Act 2014 ('the Act').

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, your financial statements give a true and fair view of the financial position of the Council and its income and expenditure for the year and whether they have been properly prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting. .

We are also required to consider other information published together with the audited financial statements (including the Annual Governance Statement (AGS) and Narrative Report, whether it is consistent with the financial statements, apparently materially incorrect based on, or materially inconsistent with, our knowledge of you acquired in the course of performing our audit; or otherwise misleading.

We are required to carry out sufficient work to satisfy ourselves on whether you have made proper arrangements to secure economy, efficiency and effectiveness in your use of resources ('the value for money (VFM) conclusion').

Auditor Guidance Note 7 (AGN07) clarifies our reporting requirements in the Code and the Act. We are required to provide a conclusion whether, in all significant respects, you have put in place proper arrangements to secure value for money through economic, efficient and effective use of your resources for the year.

The Act also details the following additional powers and duties for local government auditors, which we are required to report to you if applied:

- a public interest report if we identify any matter that comes to our attention in the course of the audit that in our opinion should be considered by you or brought to the public's attention (section 24 of the Act);

- statutory written recommendations which should be considered by you and responded to publicly (section 24 of the Act);
- application to the court for a declaration that an item of account is contrary to law (section 28 of the Act);
- issue of an advisory notice (section 29 of the Act); and
- application for judicial review (section 31 of the Act).

We are also required to give electors the opportunity to raise questions about the accounts and consider and decide upon objections received in relation to the accounts under sections 26 and 27 of the Act.

Introduction

In the conduct of our audit we have not had to alter or change our audit approach, as communicated to you in our Audit Plan dated 22 March 2017.

Our audit is substantially complete, subject to the satisfactory completion of the following procedures:

- receipt and review of evidence to enable the completion of the following procedures:
 - debtors – evidence for one samples item outstanding
 - cash – review of reconciliations
 - debt queries
 - housing benefit queries
 - provisions queries
- receipt and review of the final version of the financial statements;
- obtaining and reviewing the management letter of representation;
- review of the Annual Governance Statement and
- updating our post balance sheet events review, to the date of signing the opinion;
- completion of Whole of Government Accounts work; and
- senior management quality and file reviews.

Key audit and financial reporting issues

Financial statements opinion

The draft financial statements for the year ended 31 March 2017 recorded a deficit on provision of services of £70,386k and show no net change in the general fund balance for 2016/17. As at the date of our report we have identified no adjustments to this draft position.

The key messages arising from our audit of your financial statements are:

- The draft financial statements and supporting working papers were prepared to a good standard of quality as in previous years, with few issues arising during the audit process.
- The volume of error in the accounts was reduced compared to previous years, demonstrating improvements in the accuracy and quality of the accounts submitted for audit.

We anticipate providing a unqualified audit opinion in respect of the financial statements (see Appendix B).

Achievement of early close

For 2017/18, the statutory deadline for issue of the draft accounts will be 31 May, with the deadline for completion of the audit coming forward two months from 30 September to 31 July.

You originally intended to deliver draft accounts and working papers for us in line with the forthcoming earlier close timetables, but were not able to achieve this. Your draft financial statements for the year ended 31 March 2017 were not approved and issued for audit until 20 June 2017. The absence of a 'trial run' increases the risk of missing the earlier statutory deadlines next year.

Achieving earlier closure of the audit will be challenging given your current performance and may require fundamental change in some of your internal processes for preparing the accounts and supporting the audit process. You should also undertake a review of this year's closedown to understand the reasons for the inability to prepare accounts by the early close deadline and plan to mitigate these factors for next year.

It will be vital to the success of achieving early close to ensure that all officers involved in the process for preparation are aware of their responsibilities for supporting the earlier closure of the audit. Achieving such a significant earlier signoff of the audit is not something that can be achieved by the finance team alone and will require all staff involved in posting year end journals and adjustments to bring their work forward.

The challenge you face is to reduce the time taken to close the accounts by almost a third, without any reduction or deterioration in the quality and accuracy of the draft accounts submitted for audit. This represents a significant challenge and will require you to understand and mitigate the factors which prevented you from achieving the early close ambitions in the current and previous year.

Capacity of the finance team to respond to the audit on top of their existing, significant, workload remains an issue, and will be compounded during a more intense early close audit cycle. In planning for the early close and the re-engineering of processes to achieve the earlier deadlines, you should consider the mitigating steps that can be taken to release capacity into the finance team, reduce potential bottlenecks, and reduce the time taken to facilitate the audit and respond to queries.

Other financial statement responsibilities

As well as an opinion on the financial statements, we are required to give an opinion on whether other information published together with the audited financial statements is consistent with the financial statements. This includes assessing whether the Annual Governance Statement (AGS) and Narrative Report are misleading or inconsistent with the information of which we are aware from our audit.

Based on our review of your Narrative Report and AGS we are satisfied that they are consistent with the audited financial statements. We are also satisfied that the AGS meets the requirements set out in the CIPFA/SOLACE guidance and that the disclosures included in the Narrative Report are in line with the requirements of the CIPFA Code of Practice.

Controls

Roles and responsibilities

The Council's management is responsible for the identification, assessment, management and monitoring of risk, and for developing, operating and monitoring the system of internal control. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we report these to you.

Findings

Our work has identified the following control weakness which we wish to highlight for your attention:

- We have noted a variance of £1.6m in respect of Council tax revenues for the Collection Fund between the Northgate revenues system and the general ledger. Management was not aware of this discrepancy, and it has yet to be reconciled by management.
- The review of IT system controls by our IT auditors highlighted weakness in access controls and IT security.
- Management did not obtain five annual member declarations prior to preparing the accounts, though all were subsequently obtained.
- VAT was incorrectly not included within one year end debtor balance.
- The process for estimating the Housing Revenue Account bad debt provision does not reflect actual rates of collection.
- Your finance team does not have a clear process for identifying fully depreciated plant and equipment and infrastructure assets that have been taken out of use. The bank reconciliation as at 31 March 2017 was not documented in a format suitable for audit review.
- A copy of the data used in all areas of the Council Tax base calculation for 2016/17 was not maintained.

Further details are provided within section two of this report.

Value for Money

Overall conclusion

Based on our review of your arrangements to secure economy, efficiency and effectiveness in your use of resources we have considered the following issue which we anticipate that will give rise to a qualified Value for Money conclusion.

This qualification relates only to the issues noted within the September 2017 Ofsted report on children's services, as is set out below. In all other respects we are satisfied that you have demonstrated that you have in place appropriate arrangements in place for securing economy, efficiency and effectiveness.

We have reviewed your budget position and medium term financial planning and note that you have forecast the attainment a balanced budget over the period to 2019/20. We are satisfied that this is based upon reasonable assumptions, but note that in common with other local authorities nationally you face challenging savings requirements over the next few years as a result of demand pressures at a time of reductions in central government funding for local government.

Basis for qualified Value for Money conclusion

On 4 September 2017, Ofsted published a report on their findings from inspection of your services for children in need of help and protection, children looked after and care leavers and review of the effectiveness of the Local Safeguarding Children Board that rated you as "inadequate". The report highlighted that there has been a significant deterioration in the quality of service provision in relation to children's services since the previous inspection in 2012. Ofsted highlighted that there was weak management oversight of social care practice and that the failings identified left some children at risk of severe harm.

In response to the outcome of the Ofsted inspection, you have issued a Transitional Action Plan setting out key actions to be taken over the three months following the inspection.

We consider that the findings from the Ofsted inspection indicate weaknesses in relation to your arrangements for ensuring economy, efficiency and effectiveness in relation to your arrangements for management of children's services.

Based on our review, with the exception of the matter set out above in relation to arrangements for management of children's services, we are satisfied that in all significant respects you have put in place proper arrangements to secure economy, efficiency and effectiveness in your use of resources for the year ended 31 March 2017.

Further detail of our work on Value for Money are set out in section three of this report.

Other statutory powers and duties

We have received an objection from a local elector under Section 27 of the Act. As a result we cannot formally conclude our audit and issue an audit certificate for the year ended 31 March 2017 in accordance with the requirements of the Act and the Code of Audit Practice until we have completed our review of this matter.

We have not identified any other issues that have required us to apply our statutory powers and duties under the Act.

Further details of our work on other statutory powers and duties is set out in section four of this report.

Grant certification

In addition to our responsibilities under the Code, we are required to certify your Housing Benefit subsidy claim on behalf of the Department for Work and Pensions. At present our work on this claim is in progress and is not due to be finalised until 30 November 2017. We will report the outcome of this certification work through a separate report to General Purposes and Audit Committee once this work is complete.

The way forward

Matters arising from the financial statements audit and our review of your arrangements for securing economy, efficiency and effectiveness in your use of resources have been discussed with the Executive Director of Resources.

Acknowledgement

We would like to take this opportunity to record our appreciation for the assistance provided by management, the finance team and other staff during our audit.

Grant Thornton UK LLP
September 2017

Section 2: Audit findings

01. Executive summary

02. Audit findings

03. Value for Money

04. Other statutory powers and duties

05. Fees, non audit services and independence

06. Communication of audit matters

Materiality

In performing our audit, we apply the concept of materiality, following the requirements of ISA (UK&I) 320: Materiality in planning and performing an audit. The standard states that 'misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements'.

As we reported in our audit plan, we determined overall **materiality** to be **£22,349k** (being 1.95% of gross revenue expenditure as per the audited 2015/16 accounts). We have considered whether this level remained appropriate during the course of the audit and have made no changes to our overall materiality.

We also set an amount below which misstatements would be clearly trivial and would not need to be accumulated or reported to those charged with governance because we would not expect that the accumulated effect of such amounts would have a material impact on the financial statements. We have defined the amount below which misstatements would be **clearly trivial** to be **£1,000k**. This remains the same as reported in our audit plan.

As we reported in our audit plan, we have identified no areas where we would consider separate materiality levels to be required.

Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements; Judgments about materiality are made in light of surrounding circumstances, and are affected by the size or nature of a misstatement, or a combination of both; and Judgments about matters that are material to users of the financial statements are based on a consideration of the common financial information needs of users as a group. The possible effect of misstatements on specific individual users, whose needs may vary widely, is not considered. (ISA (UK&I) 320)

Audit findings against significant risks

In this section we detail our response to the significant risks of material misstatement which we identified in the Audit Plan. As we noted in our plan, there are two presumed significant risks which are applicable to all audits under auditing standards. These are set out below. We identified two further significant risks, which are set out on the next page.

| Risks identified in our audit plan | Work completed | Assurance gained and issues arising |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>The revenue cycle includes fraudulent transactions</p> <p>Under ISA (UK&I) 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p> | <p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the London Borough of Croydon, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> • there is little incentive to manipulate revenue recognition; • opportunities to manipulate revenue recognition are very limited; and • the culture and ethical frameworks of local authorities, including the London Borough of Croydon, mean that all forms of fraud are seen as unacceptable. <p>Though we have not identified revenue recognition as a significant risk we have nevertheless tested the occurrence of revenue for all of your material revenue streams.</p> | <p>Subject to the satisfactory resolution of outstanding matters set out on page 5, our audit work has not identified any issues in respect of revenue recognition.</p> |
| <p>The expenditure cycle includes fraudulent transactions</p> <p>Practice Note 10 suggests that the risk of material misstatement due to fraudulent financial reporting that may arise from the manipulation of expenditure recognition needs to be considered.</p> | <p>We considered the expenditure cycle risk and do not consider it to require additional audit procedures. The lack of specific financial performance targets which you are required to meet means there is limited incentive for fraudulent manipulation. Your culture means that such manipulation would be seen as unacceptable.</p> <p>The nature of expenditure streams also means that material expenditure recognition fraud would be difficult to perpetrate and conceal. Our normal substantive procedures, including the work done in relation to the risk of management override of controls, operating expenses and employee remuneration adequately address the risk of fraud through provisions and accruals.</p> | <p>Subject to the satisfactory resolution of outstanding matters set out on page 5, our audit work has not identified any issues in respect of fraudulent expenditure recognition.</p> |

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, due to either size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty." (ISA (UK&I) 315) . In making the review of unusual significant transactions "the auditor shall treat identified significant related party transactions outside the entity's normal course of business as giving rise to significant risks." (ISA (UK&I) 550)

Audit findings against significant risks (continued)

| Risks identified in our audit plan | Work completed | Assurance gained and issues arising |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>Management over-ride of controls</p> <p>Under ISA (UK&I) 240 it is presumed that the risk of management over-ride of controls is present in all entities.</p> | <p>We have completed the following work in respect of this risk:</p> <ul style="list-style-type: none"> • walkthrough of systems and controls relating to the posting of journal entries; • review of journal entry process and selection of unusual journal entries for risk-based testing back to supporting documentation; • review of accounting estimates, judgements and decisions made by management; and • review of unusual significant transactions. | <p>Subject to the satisfactory resolution of outstanding matters set out on page 5, our audit work has not identified any issues in respect of management over-ride of controls.</p> |
| <p>Valuation of property, plant and equipment</p> <p>You revalue your land and building assets on a rolling basis over a five year period. The Code requires that Councils ensures that the carrying value at the balance sheet date is not materially different from the current value. This represents a significant estimate by management in the financial statements.</p> | <p>We have completed the following work in respect of this risk:</p> <ul style="list-style-type: none"> • review of the competence, expertise and objectivity of management experts used; • testing of revaluations made during the year to ensure they are consistent with underlying valuer information and have been input correctly into your asset register; • review of your processes and assumptions for the calculation of the estimate; • review of the instructions issued to valuation experts and the scope of their work; • discussions with valuer about the basis on which the valuation is carried out and challenge of the key assumptions; and • evaluation of the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value. | <p>Subject to the satisfactory resolution of outstanding matters set out on page 5, our audit work has not identified any issues in respect of valuation of property, plant and equipment.</p> |

Audit findings against significant risks (continued)

| Risks identified in our audit plan | Work completed | Assurance gained and issues arising |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>Valuation of pension fund net liability</p> <p>Your pension fund asset and liability as reflected in your balance sheet represent significant estimates in the financial statements.</p> | <p>We have completed the following work in respect of this risk:</p> <ul style="list-style-type: none"> • identification of the controls put in place by management to ensure that the pension fund liability is not materially misstated and assessment whether those controls were implemented as expected and whether they were sufficient to mitigate the risk of material misstatement; • review of the competence, expertise and objectivity of the actuary who carried out your pension fund valuation; • gained an understanding of the basis on which the valuation is carried out; • undertook procedures to confirm the reasonableness of the actuarial assumptions made; and • review of the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from your actuary. | <p>Subject to the satisfactory resolution of outstanding matters set out on page 5, our audit work has not identified any other issues in respect of valuation of the pension fund net liability.</p> |

Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan.

| Transaction cycle | Description of risk | Work completed | Assurance gained & issues arising |
|------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Operating expenses | Creditors related to core activities (e.g. supplies) understated or not recorded in the correct period (Operating expenses understated) | <p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> • Identification of controls and walkthrough of operating expenses system; • unrecorded liabilities testing to assess whether transactions are recorded in the correct period; and • testing of the year end reconciliation of operating expenditure recorded in the general ledger to the subsidiary system. | Subject to the satisfactory resolution of outstanding matters set out on page 5, our audit work has not noted any other issues in respect of the risk identified. |
| Employee remuneration expenditure | Employee remuneration and benefit obligations and expenses understated (Remuneration expenses not correct) | <p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> • identification of controls and walkthrough of employee remuneration system; • substantive procedures to confirm the completeness of payroll transactions; and • testing of the year end reconciliation of payroll expenditure recorded in the general ledger to subsidiary system. | Subject to the satisfactory resolution of outstanding matters set out on page 5, our audit work has not noted any issues in respect of the risk identified. financial statements. |

"In respect of some risks, the auditor may judge that it is not possible or practicable to obtain sufficient appropriate audit evidence only from substantive procedures. Such risks may relate to the inaccurate or incomplete recording of routine and significant classes of transactions or account balances, the characteristics of which often permit highly automated processing with little or no manual intervention. In such cases, the entity's controls over such risks are relevant to the audit and the auditor shall obtain an understanding of them." (ISA (UK&I) 315)

Audit findings against other risks (continued)

| Transaction cycle | Description of risk | Work completed | Assurance gained & issues arising |
|-------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>Changes to the presentation of local authority financial statements</p> | <p>CIPFA has been working on the 'Telling the Story' project, for which the aim was to streamline the financial statements and improve accessibility to the user and this has resulted in changes to the 2016/17 Code of Practice.</p> <p>The changes affect the presentation of income and expenditure in the financial statements and associated disclosure notes. A prior period adjustment (PPA) to restate the 2015/16 comparative figures is also required.</p> | <p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> documented and evaluated the process for the recording the required financial reporting changes to the 2016/17 financial statements; reviewed the re-classification of the Comprehensive Income and Expenditure Statement (CIES) comparatives to ensure that they are in line with your internal reporting structure; review of the appropriateness of the revised grouping of entries within the Movement In Reserves Statement (MIRS); testing of the classification of income and expenditure for 2016/17 recorded within the Cost of Services section of the CIES; testing of the completeness of income and expenditure by reviewing the reconciliation of the CIES to the general ledger; testing of the classification of income and expenditure reported within the new Expenditure and Funding Analysis (EFA) note to the financial statements; and review of the new segmental reporting disclosures within the 2016/17 financial statements to ensure compliance with the CIPFA Code of Practice. | <p>Subject to the satisfactory resolution of outstanding matters set out on page 5, our audit work has not noted any issues in respect of the risk identified.</p> |
| <p>First year accounting and consolidation of Brick by Brick Croydon Ltd</p> | <p>This is the first year that you have prepared consolidated accounts to include Brick by Brick, and it is expected to be a material subsidiary undertaking. There is the risk of inappropriate accounting treatment.</p> | <p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> review of outputs from statutory audit of Brick by Brick performed by Grant Thornton in respect of the year ended 31 December 2016; review of accounting estimates, judgments and decisions made by management during the preparation of the financial statements; review of unusual significant transactions; and review of disclosures against requirements. | <p>Subject to the satisfactory resolution of outstanding matters set out on page 5, our audit work has not noted any issues in respect of the risk identified.</p> |

Group audit scope and risk assessment

ISA (UK&I) 600 requires that as Group auditors we obtain sufficient appropriate audit evidence regarding the financial information of the components and the consolidation process to express an opinion on whether the group financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.

For 2016/17, management have concluded that Brick by Brick Croydon Ltd is a material group component and has prepared group financial statements consolidating this company for the first time. None of the other group interests set out below have been consolidated on grounds of materiality.

| Component | Significant? | Level of response required under ISA 600 | Risks identified | Work completed | Assurance gained & issues raised |
|-------------------------------------------|--------------|------------------------------------------|------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Brick by Brick Croydon Ltd (subsidiary) | Yes | Targeted | First year consolidation | We have reviewed the consolidation adjustments made by management when preparing the group accounts and have completed targeted testing of largest balances for the company as at 31 March 2017. | Subject to the satisfactory resolution of outstanding matters set out on page 5, our audit work has not identified any issues in respect of the consolidation of Brick by Brick Croydon Ltd. |
| CCURV LLP (50% joint venture) | No | Analytical | No specific risks identified | Desktop review performed by GT UK | Our audit work has not identified any issues in respect of the judgement of the client not to consolidate this entity. |
| Croydon Care Solutions Ltd (subsidiary) | No | Analytical | No specific risks identified | Desktop review performed by GT UK | Our audit work has not identified any issues in respect of the judgement of the client not to consolidate this entity. |
| Octavo Partnership (associate) | No | Analytical | No specific risks identified | Desktop review performed by GT UK | Our audit work has not identified any issues in respect of the judgement of the client not to consolidate this entity. |
| Croydon Enterprise Loan Fund (subsidiary) | No | Analytical | No specific risks identified | Desktop review performed by GT UK | Our audit work has not identified any issues in respect of the judgement of the client not to consolidate this entity. |

Accounting policies, estimates and judgements

In this section we report on our consideration of accounting policies, in particular revenue recognition policies, and key estimates and judgements made and included with the Council's financial statements.

| Accounting area | Summary of policy | Comments | Assessment |
|-----------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------|
| <p>Revenue recognition</p> | <p>The Council has three principal revenue streams:</p> <ul style="list-style-type: none"> • taxation revenues in respect of council tax and business rates are recognised in the year that the tax was levied; • grant income is recognised in accordance with the terms of the grant, whether specific or non-specific; and • income from fees and charges in the provision of services is recognised when the service has been provided or when the title to goods has passed. | <p>We have no concerns with your revenue recognition policies or with the application of those policies. The revenue recognition policies adopted are in line with the CIPFA Code of Practice.</p> | <p style="text-align: center;">● Green</p> |
| <p>Going concern</p> | <p>The s151 officer has a reasonable expectation that the services provided by the Council will continue for the foreseeable future. Members concur with this view. For this reason, the Council continue to adopt the going concern basis in preparing the financial statements.</p> | <p>We have reviewed your assessment and are satisfied with management's assessment that the going concern basis is appropriate for the 2016/17 financial statements.</p> | <p style="text-align: center;">● Green</p> |

Assessment

● Marginal accounting policy which could potentially attract attention from regulators

● Accounting policy appropriate but scope for improved disclosure

● Accounting policy appropriate and disclosures sufficient

Accounting policies, estimates and judgements (continued)

| Accounting area | Summary of policy | Comments | Assessment |
|-----------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------|
| Bad debt provision | An allowance for doubtful debts is estimated based upon past experience. | <ul style="list-style-type: none"> • Allowance for doubtful debt of £62.1m has been recognised, of which £4.8m relates to the Housing Revenue Account. • Last year the bad debt provision for housing rent arrears was reduced due to a new business plan being implemented whereby more resources would be injected into collecting the debt. This led to a lower provision being recognised due to the expectation that more debt would be collected. However data from the current year shows that this plan has not had the desired effect, and debt and collection rates have not significantly changed. • The provision rates used are not reflective of actual collection rates and we do not have assurance that collection rates will increase soon. The estimated impact of this is that the bad debt provision is not sufficient by around £1-2m. |  Amber |
| Judgements - changes to the presentation of local authority financial statements | <ul style="list-style-type: none"> • For 2016/17, the Council has restated the format of the “cost of services” section of the comprehensive income and expenditure statement to present service income and expenditure on a segmental basis rather than in line with the CIPFA service reporting code as has been done in previous years. • This is as a result of the “Telling the Story” changes implemented by CIPFA for local authorities for 2016/17 in order to enhance the usability of the financial statements. | <ul style="list-style-type: none"> • You have opted to identify nine separate service segments in the comprehensive income and expenditure statement, based on services areas reported separately to members for budget setting and budget monitoring purposes. • We have verified that the approach adopted is appropriate to the circumstances of the Council and is consistent with the requirements of the CIPFA Code of Practice. |  Green |

Assessment

 Marginal accounting policy which could potentially attract attention from regulators

 Accounting policy appropriate but scope for improved disclosure

 Accounting policy appropriate and disclosures sufficient

Accounting policies, estimates and judgements (continued)

| Accounting area | Summary of policy | Comments | Assessment |
|---------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------|
| Other judgements and estimates | <ul style="list-style-type: none"> • Other key estimates and judgements include: <ul style="list-style-type: none"> – Useful life of PPE – Revaluations and impairments – Expenditure accruals – Accounting for PFI schemes – Financial instrument fair value disclosures – Judgements around which entities to consolidate within the group accounts – Judgements around recognition of schools land and buildings on the Balance Sheet | We have not identified any issues in relation to any of the other areas of estimate and judgement reflected within the financial statements. |  Green |
| Other accounting policies | We have reviewed the Council's policies against the requirements of the CIPFA Code and accounting standards. | We have reviewed your policies against the requirements of the CIPFA Code of Practice. Your accounting policies are appropriate and consistent with previous years. |  Green |

Assessment

● Marginal accounting policy which could potentially attract attention from regulators

● Accounting policy appropriate but scope for improved disclosure

● Accounting policy appropriate and disclosures sufficient

Other communication requirements

We set out below details of other matters which we, as auditors, are required by auditing standards and the Code to communicate to those charged with governance.

| | Issue | Commentary |
|----|----------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 1. | Matters in relation to fraud | <ul style="list-style-type: none"> We have previously discussed the risk of fraud with the Regulatory and Audit Committee in our Audit Plan dated 22 March 2017 and been made aware of minor low-level frauds identified from the work of internal audit. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures. |
| 2. | Matters in relation to related parties | <ul style="list-style-type: none"> From the work we carried out, we have not identified any related party transactions which have not been disclosed. |
| 3. | Matters in relation to laws and regulations | <ul style="list-style-type: none"> You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work. |
| 4. | Written representations | <ul style="list-style-type: none"> A standard letter of representation has been requested from the Council, which is included in the General Purposes and Audit Committee papers alongside this report |
| 5. | Confirmation requests from third parties | <ul style="list-style-type: none"> We requested from management permission to send confirmation requests in respect of the Council's bank balances, investments and loans as at 31 March 2017. This permission was granted and the requests were sent. The majority of these requests have been returned with positive confirmation. However, at the time of the drafting of our report we have received no response to our main bank confirmation request and a number of our investment confirmation requests. These collectively represent material unconfirmed cash and investment balances and we will need to obtain the outstanding confirmations in order to have sufficient assurance to conclude our audit. We are continuing to chase these outstanding confirmations and are currently in discussion with management to pursue these with the relevant bodies. We will consider alternative procedures to independently verify these balances should the confirmations not be received. |
| 6. | Disclosures | <ul style="list-style-type: none"> We identified that the draft financial statements did not provide disclosure of income and expenditure on a subjective basis as is a requirement of IFRS 8. Our review found no other material omissions in the financial statements |

Other communication requirements continued

| | Issue | Commentary |
|----|--------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 7. | Matters on which we report by exception | <p>We are required to report on a number of matters by exception in a number of areas:</p> <ul style="list-style-type: none"> • If the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit • If the information in the Narrative Report is materially inconsistent with the information in the audited financial statements or our knowledge of you acquired in the course of performing our audit, or otherwise misleading. <p>Our work to date has not identified any issues we would be required to report by exception in relation to these areas.</p> |
| 8. | Specified procedures for Whole of Government Accounts | <p>We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions.</p> <p>As the Council exceeds the specified group reporting threshold set by the NAO we are required to examine and report on the consistency of the WGA consolidation pack with your audited financial statements. This work will be undertaken after the completion of the audit, in line with the national timetable for WGA reporting.</p> |

Internal controls

The purpose of an audit is to express an opinion on the financial statements.

Our audit included consideration of internal controls relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control.

| | Assessment | Issue and risk | Recommendations |
|----|-------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 1. |  Deficiency | <ul style="list-style-type: none"> There is a variance of £1.6m between Council tax revenues for the Collection Fund between the Northgate revenues system and the general ledger. If reconciling differences between Northgate and the general ledger are not resolved this could lead to misstatement of Collection Fund revenues recognised within the accounts. | <ul style="list-style-type: none"> Undertake a review to identify how the variance arose and bring the two systems back into balance. Ensure reconciliation discrepancies are identified and resolved prior to the submission of accounts for audit. |
| 2. |  Deficiency | <ul style="list-style-type: none"> Our review of annual member declarations identified that declarations for five members had not been obtained by your central finance team at the time of commencement of the audit. These were subsequently located and shared with the audit team. If annual declarations are not obtained then there is a risk that potential related party transactions could remain undisclosed in the financial statements. | <ul style="list-style-type: none"> Ensure that annual declarations are obtained for all members and that any missing declarations are appropriately followed up prior to the submission of the draft accounts for audit. |
| 3. |  Deficiency | <ul style="list-style-type: none"> Our testing of debtors identified one debtor balance where VAT had been incorrectly excluded. Further investigation showed that this arose in an extremely rare set of circumstances in that it was a manual debtor in a wholly owned subsidiary. We therefore concluded it was not appropriate to extrapolate the error. If the VAT treatment is not correctly recorded for all debtors then this could lead to misstatement of the accounts and non-compliance with tax legislation. | <ul style="list-style-type: none"> Ensure that the correct VAT treatment is applied for all debtor balances. |

Assessment
 Significant deficiency – risk of significant misstatement
 Deficiency – risk of inconsequential misstatement

The matters we have reported here are limited to only deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

"The purpose of an audit is for the auditor to express an opinion on the financial statements.

Our audit included consideration of internal control relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control.

The matters being reported are limited to those deficiencies that the auditor has identified during the audit and that the auditor has concluded are of sufficient importance to merit being reported to those charged with governance." (ISA (UK&I) 265)

Internal controls (continued)

| | Assessment | Issue and risk | Recommendations |
|----|-------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 4. |  Deficiency | <ul style="list-style-type: none"> The bad debt provision for Housing Revenue Account rent arrears debtors does not reflect the actual rates of collection of HRA rent arrears experienced in 2016/17 and recent years. We estimate that were the bad debt provision recalculated based on actual rates of collection then an increase in the provision of between £1m and £2m would be required. If bad debt provisions are not estimated on an accurate basis then this could lead to misstatement of the accounts. | <ul style="list-style-type: none"> Review arrangements for estimating the Housing Revenue Account rent arrears bad debt provision and the process for writing off outstanding HRA debt. |
| 5. |  Deficiency | <ul style="list-style-type: none"> Our IT auditors performed a review of IT security controls at the Council and at the interface with the shared service provider. Their work highlighted a number of issues. Which are summarised below. <ul style="list-style-type: none"> A number of default accounts and passwords were in place, and excessive privileges were assigned to those accounts. A review of access rights highlighted a number of separation of duties risks. Users are assigned default or excessive user rights Gaps or weaknesses in audit logs Excessive responsibilities given to system administrator accounts. We have shared the detailed findings in a separate document to management. | <ul style="list-style-type: none"> Review the detailed findings from our IT systems review with a view to strengthening IT security and access controls |

Internal controls (continued)

| | Assessment | Issue and risk | Recommendations |
|----|---------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 6. |  Deficiency | <ul style="list-style-type: none"> Your finance team does not have a clear process for identifying fully depreciated plant and equipment and infrastructure assets that have been taken out of use. The Council's policy has been to write out of the gross cost and accumulated balance values for such assets once they are fully depreciated, in cases where they do not hold the detailed asset level records to determine whether they are still in use or not. This is not an approach that is compliant with the CIPFA Code of Practice as it is a requirement to hold assets on the Fixed Asset Register until they are taken out of use rather than until they are fully depreciated. If assets are written out of the Fixed Asset Register when they are fully depreciated rather than when they are disposed of then this could lead to misstatement in the disclosure note to the accounts, although there is no effect on the main statements | <ul style="list-style-type: none"> Introduce a clear process to identify whether fully depreciated equipment or infrastructure assets are still in use by the Council. |
| 7. |  Deficiency | <ul style="list-style-type: none"> We noted some differences between the draft bank reconciliation working paper supplied and the cash balance in the accounts. During the audit process your finance team updated the bank reconciliation to provide us with sufficient evidence. If the bank reconciliation is not clearly documented when initially completed this could lead to errors going unnoticed and lead to delays in the audit process. | <ul style="list-style-type: none"> Ensure that the year end bank reconciliation is documented in a clear format that is suitable for audit review. |
| 8. |  Deficiency | <ul style="list-style-type: none"> Supporting documentation was not obtained to support all areas of the Council Tax base calculation for 2016/17. This data is drawn from a live database and no download from the live system of the data used was retained. We have compared the calculation of the Council Tax base to live data from the Council Tax system and note no material differences, and we are satisfied that the Council tax base calculation was materially correct. If supporting data for the Council Tax base is not maintained then this could leave the calculation open to challenge. | <ul style="list-style-type: none"> Ensure that a copy of the data used to perform the Council Tax base calculation is kept. |

Adjusted misstatements

One adjustment to the draft accounts have been identified during the audit process. We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management. The table below summarises the adjustments arising from the audit which management has agreed to correct in the final version of the financial statements. There are no un-adjusted misstatements.

Impact of adjusted misstatements

There is one adjusted misstatement for 2016/17 which is set out in detail below along with the impact on the key statements and the reported deficit on provision of services for the year.

| Detail | Comprehensive Income and Expenditure Statement £'000 | Balance Sheet £'000 | Impact on deficit on provision of services £000 |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------|------------------------|----------------------------------------------------------|
| 1 Adjustment to remove internal recharges from gross income and gross expenditure: - DR gross income - £1,939k - CR gross expenditure - £1,939k There is no net impact on the Comprehensive Income and Expenditure Statement or on the General Fund | £ - | £ - | £ - |
| Overall impact | £ - | £ - | £ - |

Unadjusted misstatements

The table below provides details of adjustments identified during the audit which have not been made within the final set of financial statements. The General Purposes and Audit Committee is required to approve management's proposed treatment of all items recorded within the table below:

| Detail | Comprehensive Income and Expenditure Statement £'000 | Balance Sheet £'000 | Reason for not adjusting |
|-----------------------|------------------------------------------------------------------|------------------------|--------------------------|
| 1 | | | |
| Overall impact | £nil | £nil | |

Misclassifications and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which management has agreed to make in the final set of financial statements.

| Adjustment type | Value £'000 | Account balance | Impact on the financial statements |
|--------------------|----------------|---------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 1 Classification | £247,503k | Property, plant and equipment | The main disclosure table in Note 12 Property, Plant and Equipment showed an impairment reversal of £247,503k posted to the gross book value and accumulated depreciation for Council dwellings. |
| 2 Disclosure | N/A | Main financial statements | The 2015/16 comparative figures in the main financial statements should be marked as “restated” to highlight that these were restated as a result of the “Telling the Story” changes to the accounts format |
| 3 Group accounting | N/A | Accounting policies | The accounting policies disclosed that group accounts were not required however group accounts have been prepared. The policy should be updated to reflect accounting practice. |
| 4 Disclosure | Various | Subjective analysis disclosures | No disclosure was provided of the breakdown of gross income and gross expenditure on a segmental basis as is required by IFRS 8 |
| 5 Disclosure | Various | Various | We have agreed a number of other minor disclosure changes |

Section 3: Value for Money

01. Executive summary

02. Audit findings

03. Value for Money

04. Other statutory powers and duties

05. Fees, non-audit services and independence

06. Communication of audit matters

Background

We are required by section 21 of the Local Audit and Accountability Act 2014 (the Act) and the NAO Code of Audit Practice (the Code) to satisfy ourselves that you have put in place proper arrangements for securing economy, efficiency and effectiveness in your use of resources. This is known as the Value for Money (VFM) conclusion.

We are required to carry out sufficient work to satisfy ourselves that proper arrangements are in place at the Council. The Act and NAO guidance state that for local government bodies, auditors are required to give a conclusion on whether the Council has put proper arrangements in place.

In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in November 2016. AGN 03 identifies one single criterion for auditors to evaluate:

In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people.

AGN03 provides examples of proper arrangements against three sub-criteria but specifically states that these are not separate criteria for assessment purposes and that auditors are not required to reach a distinct judgement against each of these.

Risk assessment

We carried out an initial risk assessment in early 2017 and identified a number of significant risks in respect of specific areas of proper arrangements using the guidance contained in AGN03. We communicated these risks to you in our Audit Plan dated 22 March 2017. The risks identified were as follows:

- Budget position and medium term financial planning
- Health & social care integration

We have continued our review of relevant documents up to the date of giving our report, and have identified one further significant risks where we need to perform further work:

- Ofsted inspection of children's services

We carried out further work only in respect of the two significant risks we identified from our initial risk assessment and the one additional risk that we noted subsequently in respect of children's services. Where our consideration of the significant risks determined that arrangements were not operating effectively, we have used the examples of proper arrangements from AGN 03 to explain the gaps in proper arrangements that we have reported in our VFM conclusion.

Significant qualitative aspects

AGN 03 requires us to disclose our views on significant qualitative aspects of your arrangements for delivering economy, efficiency and effectiveness.

We have focused our work on the significant risks that we identified in your arrangements. We have set out more detail on the risks we identified, the results of the work we performed and the conclusions we drew from this work on pages 31 to 36.

In seeking to satisfy ourselves that you have made proper arrangements for securing economy, efficiency and effectiveness in your use of resources, we have considered reports issued by regulators. During the year of audit, in September 2017 a report on the inspection of services for children in need of help and protection, looked after children and care leavers, and review of effectiveness of the Local Safeguarding Children Board concluded that, overall, children's services in the London Borough of Croydon were judged to be inadequate.

Overall conclusion

Based on the work we performed to address the significant risks, we concluded that:

- with the exception of the matter set out above in relation to arrangements for management of children's services, we are satisfied that in all significant respects you have put in place proper arrangements to secure economy, efficiency and effectiveness in your use of resources for the year ended 31 March 2017.

The text of our report, which confirms this can be found at Appendix B.

Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

| Significant risk | Work to address | Findings and conclusions |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>Budget position and medium term financial planning Your 2016/17 forecast outturn at the end of Quarter 3 was a £0.7m overspend, meaning you are broadly consistent with your planned budget outturn. However, the underlying service related overspend is forecast to be £10.3m. This has been primarily driven by continued demand led pressures in Adult Social Care and Children’s Social Care, with offsetting underspends within Non-Departmental items such as additional grant and capital charge reductions.</p> <p>Your medium term financial planning identifies significant budget gaps over the coming years, totalling £60.5m from 2017/18 to 2019/20, which are planned to be closed by savings and council tax growth.</p> <p>You have set a balance budget for 2017/18, incorporating over £16m of growth, primarily focussed on resolving ongoing budget pressures in the People department. However, this will also require the delivery of £19.5m of savings across the organisation. You have also balanced the budget position to 2019/20, with over £39m of savings schemes identified across a number of key headings such as commissioning/contract management, demand management, prevention and early intervention, integration of Health and Social Care, growth, commercial approach and digital enabling.</p> <p>A balanced budget forecast to 2019/20 is an impressive achievement and the results of your work to identify savings in the medium term and the growth you are pursuing which will increase your council tax base. However, the savings targets remain challenging and will require substantial oversight and review, and must be underpinned by robust assumptions. Failure to deliver on your plans presents a serious risk to your overall financial health.</p> | <p>We will reviewed your arrangements in setting and controlling the budget position.</p> <p>We will reviewed your processes to control and challenge budget overspends where they materialise.</p> <p>We will reviewed the adequacy of your underlying budget assumptions and your plans to address the budget gaps to 2019/20.</p> | <p>Summary findings</p> <ul style="list-style-type: none"> • 2015/16 outturn position of £0.05m underspend consisting of a significant departmental overspend of £10.4m (largely in demand led services), offset by non-departmental underspends of £10.5m. • No guarantee non-departmental underspends will continue, so vigilance over future positions is critical. Failure to deliver to budget could have a significant impact on your financial health. • For 2017/18, you have set a balanced budget, with generally robust underlying assumptions. • You have increased Croydon’s share of council tax by 4.99% but, as service pressures are expected to grow, substantial efficiency and transformation savings will continue to be required across the organisation. • Medium term financial plans show budget has been balanced for 3 years, an impressive achievement. Incorporates assumptions around council tax growth. • Vigilance over the position and risks is still required to address future uncertainties. Longer term growth assumptions are lower than that experienced to date, so the forecast may need to be revised should growth exceed expectation. <p>2016/17 Financial Performance</p> <p>You have delivered a small underspend against budget of £0.05m in 2016/17. In challenging times, you have been able to achieve your budgeted financial position. This represents an improvement on the £0.7m overspend forecast at Quarter 3 and is reflective of the control and challenge embedded within the financial monitoring process to bring budgets into line.</p> <p>However, there continues to be substantial departmental overspends primarily within the People department (£10m overspend). Overspends appear to be a continuation of the demand led activity growth noted in the previous few years. Children’s Social Care caseloads and placement costs have contributed to £5.5m overspends, as well as temporary accommodation costs (£1.9m) and adult service demand (£2.1m).</p> <p>In line with what we reported last year, demand growth has continued apace. In 2016/17, you incorporated around £9m of growth in the People department, but this was still not sufficient to address the challenge. You are taking action to address the medium and long term impact, and are supporting the position through cost control and transformation initiatives such as the Gateway service – which brings together services to comprehensively address issues over housing, welfare and debt management. This has been successful in helping families within the borough and prevents duplication of service provision across the council. You also have in place the Family Link Team and Think Family panel to consider the costs and needs of select target groups to best manage the response needed and reduce costs.</p> |

Key findings (continued)

| Significant risk | Findings and conclusions (continued) |
|-----------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Budget position and medium term financial planning (continued) | <p>Demand led growth looks unlikely to let up. You have incorporated growth of £11.9m in the People department in the 2017/18 budget. Much of this is designed to address the historic demand issues. While this is more than last year, it does remain to be seen whether even this level of growth is sufficient to deal with continuing demand increases.</p> <p>To offset the departmental overspends, underspends continue to relate to non-departmental items. The most significant is additional government grant received totalling £5.9m (including New Homes Bonus, Section 31 Grants and an NNDR Safety Net payment that related to 2015/16). Underspends on your capital programme total a substantial £94m (45%) on the general fund alone, and this has contributed to a reduction in Minimum Revenue Provision (MRP) contribution of £1.9m. While capital underspends provide short term relief in terms of avoided interest and MRP charges, it can place additional pressures on service delivery, savings and transformation plans through non-delivery of supporting schemes. You have a number of large-scale projects over the coming years to achieve your growth strategy, so delivering the expanded capital programme in accordance with the planned timetable will be critical to enabling the growth expected for Croydon.</p> <p>We continue to note that your recent re-analysis of your MRP charges have reduced your contribution in the short term to around £7.4m. While the provision remains materially prudent, reducing this expenditure in the short term serves only to defer costs to future years, and the model assumes a substantial increase in costs in the medium term that will need to be addressed by future budgets.</p> <p>Overall, your financial monitoring is robust and reflects the financial challenges you face. Budgets are controlled and challenged adequately. However, pressures are managed through corporate items. There is no guarantee these will materialise in future years to bring down the departmental overspends. You therefore need to ensure that budget assumptions, especially growth, are adequate to deliver a balanced position. If overspends continue at the current level, and the corporate offsetting underspend amounts do not re-occur, the deficit position could exceed your general fund balance and seriously harm your financial health.</p> <p>Looking towards 2017/18 and beyond</p> <p>You set a balanced budget for 2017/18 in February 2017. Reductions in funding, inflation and service growth presented an overall budget gap of £31m. You have closed this through an increase in Croydon's share of council tax of 4.99%, combining a 1.99% increase and an additional 3% for the Social Care Precept (total £7.3m), council tax base increases (£4.2m) and planned savings (£19.5m).</p> <p>In the three year period to 2019/20, you have also been able to close a projected budget gap of around £60m. This is an impressive achievement, and is a substantial improvement compared to the significant unresolved 3-year budget gaps seen in previous years. However, given the longer timeframe, assumptions will still need to be revised in future periods. In particular, given the potential impact and uncertainties around Brexit and government policy as well as the impact of the substantial population growth in Croydon, some assumptions may change. The plans for 2018/19 appear to show 'growth' requirements tailing off from £16m increase in 2017/18 to £2.2m increase in 2018/19. While the 2017/18 budget has incorporated additional growth to address historic overspends, if demand does continue to the same extent as previously, more growth may be needed. It will be imperative to align the medium term planning with the growth assumptions in the wider borough context going forward.</p> |

Key findings (continued)

| Significant risk | Findings and conclusions (continued) |
|------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>Budget position and medium term financial planning (continued)</p> | <p>Savings planning has been enhanced, with £19.5m due to be delivered in 2017/18, rising to a cumulative £39.2m by 2019/20, which closes your 3 year projected budget gap. Your savings plans are principles based, across 8 areas of focus; getting the most out of assets, better commissioning and contract management, managing demand, prevention and early intervention, integration of Health and Social Care, delivering growth, commercial approach and digital. Schemes are reasonably well developed, and have been put in place for 2017/18. The principle based structure enables you to focus on key streams and supports cross-cutting initiatives rather than top-slices to budgets. To maximise the impact of savings plans, project review should be incorporated more closely into the budget monitoring and outturn reports to ensure planned savings are delivering the desired effect. It is currently unclear from the budget report the extent to which overspends are being driven by purely demand led increases, against the success or failure of savings initiatives.</p> <p>Overall, the budget plans for 2017/18 are robust, with reasonable assumptions. The medium term planning shows an improving outlook which is broadly in line with your high level thinking over council tax and growth plans, and more savings are proposed to 2019/20 than have been in place in previous years. However, there are longer term pressures from demand led services that could continue to manifest in 2017/18 and beyond. Vigilance is still required to make sure that you meet the budget expectations and work should not let up on ensuring robust assumptions are included and savings are identified, delivered and implemented in order to secure your financial future.</p> <p>On that basis we concluded that the risk was sufficiently mitigated and you have proper arrangements.</p> |

Key findings (continued)

| Significant risk | Work to address | Findings and conclusions |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>Health & Social Care Integration</p> <p>You are seeking to deliver wide ranging changes and greater integration to ensure the financial sustainability of adult health and social care services. Working with partners, including Croydon CCG, local NHS providers and other wider organisations, there are potentially conflicting priorities. The project is complex and high profile, but there are significant benefits to improved service delivery and financial savings.</p> | <p>We reviewed your progress to date in implementing the planned integration and considered your arrangements to monitor/manage risks and ensure benefits from the project are realised.</p> | <p>Summary findings</p> <ul style="list-style-type: none"> • Both health and social care face enormous pressure and greater integration is needed to relieve financial pressures and deliver a more effective service. The position in Croydon is particularly challenging. • You are working with the NHS and other providers through the STP and the Outcomes Based Commissioning model to foster greater integration and improve outcome. • Plans are in early stages, however, arrangements appear reasonable. There are a number of risks that you have identified and are appropriately monitoring, which will be critical to ensuring future success. <p>Health and social care services both in Croydon and nationwide face enormous pressure. There are a number of initiatives to bring together services in new ways and deliver genuine and effective collaboration between the NHS, local authorities and other providers.</p> <p>The challenge faced by Croydon is particularly acute. The local hospital trust, Croydon Health Services NHS Trust, is in severe financial difficulties and the local CCG is in deficit. Given the challenges faced by you as well, the financial flexibility in being able to deliver sustainable adult health and social care services is not necessarily present. We have considered below some of the key initiatives you are participating in to deliver an integrated service.</p> <p>Sustainability and Transformation Plans (STP)</p> <p>You are part of the South West London STP. This aims to bring together the various organisations and ensure the delivery of quality services, address future health challenges and deliver within the limited resources available. The STP plan was submitted on 21 October 2016. It reflects the challenges you face and proposes a number of solutions to deal with these at both the South West London level and the Croydon level. Failures within one part of the system can easily have a knock on implication for another part, so it is critical that all work together effectively to deliver for the areas.</p> <p>The plans are moving into the implementation stage. There have been a number of reports to the Health and Wellbeing Board and the Health and Social Care Scrutiny Sub-Committee detailing the work to date and the plans in place. The overall governance arrangements appear sound.</p> <p>It is not clear at this stage how effective they will be at delivering genuine joined up care. The STP requires much closer working between the NHS and local authorities, and the following sections set out some of the other ways you are pursuing this. The continued provision of effective social care is critical to preventing people from needing hospital stays and reducing delayed transfers of care. Balancing the financial challenge with ongoing increases in demand is a recognised national issue, and additional funding is being earmarked. However, it will be critical to ensure funds are appropriately targeted, and that both yourselves and the NHS consider the holistic picture when making financial and non-financial decisions over service provision. This is challenging, particularly in light of NHS England's increasing focus on short term, year end deficit positions.</p> |

Key findings (continued)

| Significant risk | Findings and conclusions (continued) |
|----------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>Health & Social Care Integration (continued)</p> | <p>Outcomes Based Commissioning You have commissioned, jointly with Croydon CCG, a 10 year contract to develop an Integrated Health and Social Care system for the over 65s population in Croydon. This involves an overall budget of around £220m p/a, of which £41m will come from yourselves. The Croydon Outcomes Based Commissioning (OBC) Alliance Agreement awards service contracts to a variety of providers. You are unique in that you act as both a commissioner and provider of services.</p> <p>The aim is for all partners to come together and provide high quality, safe, seamless and personalised care to older people in Croydon to help them stay independent. The service is commissioned based on outcomes that you are looking to see delivered, and these are a key measure in determining the contract pricing and structure. Croydon as an area faces particular challenges, including a growing and ageing population, and the financial challenges already mentioned. The model is planned to deliver substantial savings and ensure services are commissioned effectively within available resources.</p> <p>The plans have been appropriately approved by Cabinet and relevant committees, and are in line with the overall integration aims. Given your dual roles as provider and commissioner, you have put in place appropriate safeguards to ensure this is managed effectively. A separate SLA will be entered into, for around £9m p/a, between the council as Commissioner and as a Provider to hold the Adult Social Care service to account for quality and delivery of services.</p> <p>You have appropriately identified the key risks to the project, including the financial position and recovery plans for the CCG and Croydon Health Services NHS Trust, the pressures within Adult Social Care that already exist, the risk sharing process (including proportionate risk sharing arrangements), and ensuring you are not exposed to financial risks from the CCG or CHS overspends.</p> <p>The OBC model is new and remains in an early stage. It will take some time to see the true impact of the changes, but the plans do demonstrate the work you are doing to deliver services differently and work in partnership with other providers. Success factors will be not only the achievement of challenging financial targets, but delivering a truly integrated and effective service, however, there are clear risks to the position that have been appropriately identified and must be robustly monitored.</p> <p>On that basis we concluded that the risk was sufficiently mitigated and you have proper arrangements</p> |

Key findings (continued)

| Significant risk | Work to address | Findings and conclusions |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>Ofsted inspection of children's services</p> <p>Ofsted issued a report on the Council's children's services in September 2017 which gave an overall rating of 'inadequate'.</p> | <p>We reviewed the report of Ofsted and considered the response of the Council to the report.</p> | <p>Summary findings</p> <ul style="list-style-type: none"> On 4 September 2017, Ofsted published a report on their findings from inspection of your services for children in need of help and protection, children looked after and care leavers and review of the effectiveness of the Local Safeguarding Children Board that rated you as "inadequate". We are required to issue a qualified Value for Money conclusion as a result of the issues set out within the report. <p>On 4 September 2017, Ofsted published a report on their findings from inspection of your services for children in need of help and protection, children looked after and care leavers and review of the effectiveness of the Local Safeguarding Children Board that rated you as "inadequate". This included sub-ratings of</p> <p>The key findings of the report are as follows:</p> <ul style="list-style-type: none"> - there has been a significant deterioration in the quality of service provision in relation to children's services since the previous inspection in 2012; - management oversight of social care practice is weak; - the workloads of social workers in some teams are high; - There has been a lack of challenge from the Local Safeguarding Children Board; - the failings identified left some children at risk of severe harm including risk of sexual exploitation. <p>Following the publication of the report, the Secretary of State for Education concluded that you failing to deliver children's services to an adequate standard and issued a statutory direction under section 497A(4B) of the Education Act 1996 to appoint a commissioner who will undertake a review as to whether the most effective way of securing and sustaining improvement in Croydon is to remove the control of children's social care from the Council for a period of time.</p> <p>In response to the outcome of the Ofsted inspection, you have issued a Transitional Action Plan setting out key actions to be taken over the three months following the inspection. The Plan sets out key actions to be taken to in the short term to improve child safety and the quality of service provided. A formal Improvement Plan is currently being developed and is required to be submitted to Ofsted by 11 September.</p> <p>We consider that this matter is evidence of weaknesses in proper arrangements for understanding and using appropriate and reliable financial and performance information to support informed decision making and performance management, and for planning, organising and developing the workforce effectively to deliver strategic priorities.</p> <p>On that basis we concluded that you do not have proper arrangements in relation to the risk identified.</p> |

Significant difficulties in undertaking our work

We did not identify any significant difficulties in undertaking our work on your arrangements for ensuring value for money which we wish to draw to your attention.

Significant matters discussed with management

There were no matters where no other evidence was available or matters of such significance to our conclusion or that we required written representation from management or those charged with governance.

Any other matters

There were no other matters from our work which were significant to our consideration of your arrangements to secure value for money in your use of resources.

Section 4: Other statutory powers and duties

01. Executive summary

02. Audit findings

03. Value for Money

04. Other statutory powers and duties

05. Fees, non audit services and independence

06. Communication of audit matters

Other statutory powers and duties

We set out below details of other matters which we, as auditors, are required by the Act and the Code to communicate to those charged with governance.

| | Issue | Commentary |
|----|----------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 1. | Public interest report | <ul style="list-style-type: none">• We have not identified any matters that would require a public interest report to be issued |
| 2. | Written recommendations | <ul style="list-style-type: none">• We have not made any written recommendations that the Council is required to respond to publicly |
| 3. | Application to the court for a declaration that an item of account is contrary to law | <ul style="list-style-type: none">• We confirm that we have not had need to use this duty. |
| 4. | Issue of an advisory notice | <ul style="list-style-type: none">• We confirm that we have not had need to use this duty. |
| 5. | Application for judicial review | <ul style="list-style-type: none">• We confirm that we have not had need to use this duty. |
| 6. | Objections from local electors | <ul style="list-style-type: none">• We have received an objection from a local elector under Section 27 of the Act. We are currently investigating this matter and do not expect to respond to it until after the planned date for signing of the audit. As a result we cannot formally conclude our audit and issue an audit certificate for the year ended 31 March 2017 in accordance with the requirements of the Act and the Code of Audit Practice until we have completed our review of this matter.• We are satisfied that this matter does not have a material effect on the financial statements or on our conclusion on your arrangements for securing economy, efficiency and effectiveness in your use of resources for the year ended 31 March 2017. |

Section 5: Fees, non-audit services and independence

01. Executive summary

02. Audit findings

03. Value for Money

04. Other statutory powers and duties

05. Fees, non audit services and independence

06. Communication of audit matters

We confirm below our final fees charged for the audit and confirm there were no fees for the provision of non audit services.

Fees

| | Proposed fee £ | Final fee £ |
|-----------------------------------------|-------------------|----------------|
| Council audit | 172,860 | 172,860 |
| Audit of Brick by Brick Croydon Ltd | 30,000 | TBC |
| Grant certification | 25,755 | TBC |
| Total audit fees (excluding VAT) | 228,615 | TBC |

The proposed fees for the year were in line with the scale fee set by Public Sector Audit Appointments Ltd (PSAA).

Grant certification

Our fees for grant certification cover only housing benefit subsidy certification, which falls under the remit of Public Sector Audit Appointments Limited. There are no fees in respect of other grant work.

Independence and ethics

- Ethical Standards and ISA (UK&I) 260 require us to give you timely disclosure of matters relating to our independence.
- We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and confirm that we are independent and are able to express an objective opinion on the financial statements.
- We confirm that we have implemented policies and procedures to meet the requirements of the Auditing Practices Board's Ethical Standards.
- For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The table below summarises all other services which were identified:

Fees for other services

| Service | Fees £ |
|----------------------------------------------------------------------|--------|
| Audit related services: No audit related services provided | |
| Non-audit services | |
| • Financial resilience capacity building programme | 3,500 |
| • CFO Insights subscription | 10,000 |

Independence and other services

We have considered whether other services might be perceived as a threat to our independence as the group's auditor and have ensured that appropriate safeguards are put in place

| | Service provided to | Fees £ | Threat? | Safeguard |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------|--------|------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Non-audit services | | | | |
| <p><u>Financial resilience capacity building programme</u></p> <p>A series of workshops were held to help finance officers to develop by learning new leadership skills, listening to guest speakers and networking with their peers.</p> | London Borough of Croydon | 3,500 | <ul style="list-style-type: none"> No threats noted | The facilitators for the programme were separate to the audit team. The work was structured so as not to make any recommendations in relation to strategic decision making or partnership working or on the deployment of resources. |
| <p><u>CFO Insights subscription</u></p> <p>CFO Insights is an online software service offering that enables users to rapidly analyse, segment and visualise all the key data relating to the financial performance of a local authority.</p> | London Borough of Croydon | 10,000 | <ul style="list-style-type: none"> Self interest threat | <p>The fee is a recurrent subscription and thus gives high self-interest threat. However, the fee for this work is negligible in comparison to the total fee for the audit and in particular Grant Thornton UK LLP's turnover overall. It is also a fixed fee with no contingent element. We consider that these factors all mitigate the perceived self-interest threat to an acceptable level.</p> <p>CFO Insights does not provide any advice; the tool provides only information and insight that to help inform decision making by officers. It is the responsibility of your officers who use this service to undertake informed interpretation of the information provided. The team that operates this service is separate to the audit team.</p> |
| | TOTAL | 13,500 | | |

Section 6: Communication of audit matters

01. Executive summary

02. Audit findings

03. Value for Money

04. Other statutory powers and duties

05. Fees, non audit services and independence

06. Communication of audit matters

Communication to those charged with governance

ISA (UK&I) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

This document, The Audit Findings, outlines those key issues and other matters arising from the audit, which we consider should be communicated in writing rather than orally, together with an explanation as to how these have been resolved.

Respective responsibilities

The Audit Findings Report has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by Public Sector Audit Appointments Limited (<http://www.psa.co.uk/appointing-auditors/terms-of-appointment/>)

We have been appointed as the Council's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England at the time of our appointment. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the NAO (<https://www.nao.org.uk/code-audit-practice/about-code/>). Our work considers the Council's key risks when reaching our conclusions under the Code.

It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

| Our communication plan | Audit Plan | Audit Findings |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|----------------|
| Respective responsibilities of auditor and management/those charged with governance | ✓ | |
| Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications | ✓ | |
| Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issues arising during the audit and written representations that have been sought | | ✓ |
| Confirmation of independence and objectivity | ✓ | ✓ |
| A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged Details of safeguards applied to threats to independence | ✓ | ✓ |
| Material weaknesses in internal control identified during the audit | | ✓ |
| Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements | | ✓ |
| Non compliance with laws and regulations | | ✓ |
| Expected modifications to auditor's report, or emphasis of matter | | ✓ |
| Unadjusted misstatements and material disclosure omissions | | ✓ |
| Significant matters arising in connection with related parties | | ✓ |
| Significant matters in relation to going concern | ✓ | ✓ |
| Matters in relation to the group audit including: Scope of work on components, involvement of group auditors in component audits, concerns over quality of component auditors' work, limitations of scope on the group audit, fraud or suspected fraud. | ✓ | ✓ |

Appendices

- A. Action Plan
- B. Audit Opinion

A. Action plan

| Rec no. | Recommendation | Priority | Management response | Implementation date and responsibility |
|---------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------|
| 1. | Ensure that appropriate steps are taken to reduce the time taken to prepare the draft financial statements in future periods so that the earlier closure of the audit for 2017/18 is achieved. This may require re-engineering of existing processes to reduce the time taken to close the accounts by one third. | High | The 2016/17 draft financial statements were prepared in a shorter time frame than previous years. The Council recognises that the 2016/17 draft financial statements were not completed in accordance with the new regulations that come in to effect for the 2017/18 Audit and the Director of Finance, Investment and Risk and the Head of Accountancy are working with officers to review processes to ensure the new deadlines are achieved. The Interim Audit will also be key to achieving an earlier close and the Council is continuing to work with the external auditors to scope and manage this audit. | On going throughout the year. Director of Finance, Investment and Risk and the Head of Accountancy |
| 2. | Ensure that appropriate steps are taken to improve the response time to requests for information from the audit team in future audits. This will require both our audit team and your finance team to identify ways to work together more efficiently and effectively. This may require consideration of capacity within the finance team and mitigating steps that are needed to increase capacity and response times. | Medium | The Council will continue to work with the Auditors to improve response times and recognise that this is especially important next year with the reduced timetable. To aid this process it has been suggested to the Auditors that a comprehensive timetable of audit activity is provided so we can ensure that the correct staff are available at the appropriate times. A 2016/17 audit debrief and lessons learnt meeting with the auditors is scheduled to take place in October 2017 to discuss where the delays arose and how these can be mitigated in the future. In addition the finance team will be undertaking a comprehensive internal review of the 2016/17 audit to identify where improvements can be made and where staff skills need to be deployed next year. | On going from October 2017 to March 2018. Head of Accountancy. |
| 3. | Undertake a review to identify how the £1.6m variance in Council tax revenues between the Northgate system and the general ledger arose and bring the two systems back into balance. Ensure reconciliation discrepancies are identified and resolved prior to the submission of accounts for audit. | Medium | The Council will undertake a review of activity within its collection fund and Northgate system to determine the cause and time frame of the variance occurring. Depending on what is identified, action will be taken to resolve it prior to the submission of the 2017/18 accounts | Review completed by November 2017, resolution agreed by February 2018. Head of Accountancy |

Controls

- High – Significant control deficiencies
- Medium – Effect on control system
- Low – Best practice

| | | | | |
|----|------------------------------------------------------------------------------------------------------------------------------------------------------|---------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------|
| 4. | Ensure that missing annual declarations are followed up in a more timely manner. | Medium | Declarations were received from all Members, we agree that a couple were received after the accounts were submitted to the auditors and are revising the declaration form, guidance note and submission process for next year, working more closely with democratic services colleagues. | Declaration forms to be distributed to members by 26th February 2018. Head of Accountancy and Head of Democratic Services and Scrutiny |
| 5. | Ensure that the correct VAT treatment is applied for all debtor balances. | Medium | Guidance to staff will be reissued to ensure that the correct VAT treatment is applied on debtor balances, and that all debtors should be issued via an appropriate billing system | September 2017, Head of Accountancy |
| 6. | Review arrangements for estimating the Housing Revenue Account rent arrears bad debt provision and the process for writing off outstanding HRA debt. | Medium | Work is underway already to review income and debt across the whole Council and there is a specific income and Debt board reviewing debt collection, provision and write off. | On going. Director of Housing Need. |

A. Action plan

| Rec no. | Recommendation | Priority | Management response | Implementation date and responsibility |
|---------|-------------------------------------------------------------------------------------------------------------------------------------|----------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 7. | Review the detailed findings of our review of IT controls, with a view to strengthening IT security arrangements. | Medium | A review of the IT controls review is taking place during September by relevant colleagues across the Council. Action will be undertaken to implement the actions and a management response will be provided to the review by the end of September 2017. | A response to the review will be made by the 30th September 2017. Responsibility for the submission of the management response will be for the Director of Finance, Investment and Risk. |
| 8. | Introduce a clear process to identify whether fully depreciated equipment or infrastructure assets are still in use by the Council. | Medium | A clear process will be established to ensure that the operational status of fully depreciated equipment or infrastructure assets is known, and will inform our decision on subsequent treatment. | By end of January 2018, Head of Accountancy |
| 9. | Ensure that the year end bank reconciliation is documented in a clear format that is suitable for audit review. | Low | The necessary bank reconciliation paperwork will be completed and reviewed regularly during 2017/18, and ahead of the audit period.. | Ongoing throughout 2017/18, and by the end of May 2018, Head of Accountancy |
| 10. | Ensure that a copy of the data used to perform the Council Tax base calculation is kept. | Medium | Data used to perform this calculation will be retained. | January 2018, Head of Accountancy |

Controls

- High – Significant effect on control system
- Medium – Effect on control system
- Low – Best practice

B: Audit opinion

We anticipate we will provide the Council with an unmodified audit report.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THE LONDON BOROUGH OF CROYDON

We have audited the financial statements of the London Borough of Croydon (the "Authority") for the year ended 31 March 2017 under the Local Audit and Accountability Act 2014 (the "Act"). The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Group Comprehensive Income and Expenditure Statement, the Balance Sheet, the Group Balance Sheet, the Cash Flow Statement, the Housing Revenue Account – Comprehensive Income and Expenditure Statement, the Movement on the HRA Statement, the Collection Fund, the Group Movement in Reserves Statement, the Group Comprehensive Income and Expenditure Statement, the Group Balance Sheet, the Cash Flow Statement, the Group Cash Flow Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Act and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Executive Director of Resources and auditor

As explained more fully in the Statement of Responsibilities, the Executive Director of Resources is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17, which give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law, the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the "Code of Audit Practice") and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Authority and Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Executive Director of Resources and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Narrative Statement, and the Annual Governance Statement to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion:

- the financial statements present a true and fair view of the financial position of the Authority and Group as at 31 March 2017 and of the Authority's and Group's expenditure and income for the year then ended; and
- the financial statements have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 and applicable law.

Opinion on other matters

In our opinion, the other information published together with the audited financial statements in the Narrative Statement and the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the audited financial statements.

Matters on which we are required to report by exception

We are required to report to you if:

- in our opinion the Annual Governance Statement does not comply with the guidance included in 'Delivering Good Governance in Local Government: Framework (2016)' published by CIPFA and SOLACE; or
- we have reported a matter in the public interest under section 24 of the Act in the course of, or at the conclusion of the audit; or
- we have made a written recommendation to the Authority under section 24 of the Act in the course of, or at the conclusion of the audit; or
- we have exercised any other special powers of the auditor under the Act.

We have nothing to report in respect of the above matters.

Conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

Respective responsibilities of the Authority and auditor

The Authority is responsible for putting in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

We are required under Section 20(1)(c) of the Act to be satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Scope of the review of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2016, as to whether the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criteria as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether in all significant respects the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Basis for qualified conclusion

In considering the Authority's arrangements for securing economy, efficiency and effectiveness we identified the following matter:

In September 2017, Ofsted issued its report on the inspection of the Authority's services for children in need of help and protection, children looked after and care leavers and review of the effectiveness of the Local Safeguarding Children Board. The overall judgement was that children's services were rated as inadequate.

Following consideration of Ofsted's report, the Secretary of State for Education concluded that the Authority was failing to deliver children's services to an adequate standard and issued a statutory direction under section 497A(4B) of the Education Act 1996 to appoint a commissioner who will undertake a review as to whether the most effective way of securing and sustaining improvement in Croydon is to remove the control of children's social care from the Council for a period of time.

This matter is evidence of weaknesses in proper arrangements for understanding and using appropriate and reliable financial and performance information to support informed decision making and performance management, and for planning, organising and developing the workforce effectively to deliver strategic priorities.

Qualified conclusion

On the basis of our work, having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2015, except for the effects of the matter described in the Basis for qualified conclusion paragraphs above, we are satisfied that, in all significant respects, the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.

Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate for the Authority for the year ended 31 March 2017 in accordance with the requirements of the Act and the Code of Audit Practice until we have completed our consideration of an objection brought to our attention by a local authority elector under Section 27 of the Act. We are satisfied that this matter does not have a material effect on the financial statements or on our conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.

Paul Grady
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

30 Finsbury Square
London
EC2P 2YU

[Date]



© 2017 Grant Thornton UK LLP. All rights served.

'Grant Thornton' refers to the brand under which the Grant Thornton member firms provide assurance, tax and advisory services to their clients and/or refers to one or more member firms, as the context requires.

Grant Thornton UK LLP is a member firm of Grant Thornton International LTD (GTIL). GTIL and the member firms are not a worldwide partnership. GTIL and each member firm is a separate legal entity. Services are delivered by the member firms. GTIL does not provide services to clients. GTIL, and its member firms are not agents of, and do not obligate, one another and are not liable for one another's acts or omissions.

grant-thornton.co.uk